

Message Text

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SUBJECT: WALL STREET JOURNAL ARTICLE ON NICKEL MARKET AND
INCO

1. WALL STREET JOURNAL OF APRIL 20 CARRIES LENGTHY ARTICLE
ON DECLINING NICKEL MARKET AND STRUGGLE OF INCO TO REGAIN
ITS TOTAL PAST DOMINATION OF THE INDUSTRY IN FACE OF EXCESS
CAPACITY, NEW TECHNOLOGY AND SLOWER GROWTH OVERALL. SEABED
MINING MENTIONED AS ADDITIONAL BURDEN AT END OF ARTICLE.

2. FOLLOWING ARE SELECTED PASSAGES:

A.--"...INCO STILL IS AND PROBABLY FOR YEARS TO COME WILL
REMAIN THE WORLD'S LARGEST AND, TO MANY OBSERVERS, MOST
EFFICIENT NICKEL PRODUCER. BUT MOST OBSERVERS BELIEVE THAT
INCO NEVER AGAIN WILL BE WHAT MANY CONSIDERED THE SOMETIMES
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BENEVOLENT, OFTEN-ARROGANT RULER OF A TIGHTLY CONTROLLED IN-
DUSTRY. THAT CHANGE HAS THRUST INTO DISARRAY AN INDUSTRY
WITH WEAK MARKETS AND EXCESS CAPACITY. IT ALSO HAS BROUGHT
AN UPHEAVAL TO INCO.

B.--"ANOTHER MAJOR TURNING POINT CAME LAST YEAR, WHEN INCO
DROPPED ITS FORMERLY SACROSANCT POLICY OF POSTING NICKEL

PRICES ON A TAKE-IT-OR-LEAVE-IT BASIS AND SAID THAT HENCE-FORTH ITS PRICES WOULD FLUCTUATE WITH THOSE OF COMPETITORS IN THE MARKETPLACE.

C.--"THE COMPANY ASSUMED THAT THE SCARCITY OF NICKEL WOULD LAST FOR YEARS. IN 1970, FOR EXAMPLE, INCO FORECAST A FUTURE 'STRUGGLE FOR PRODUCERS TO KEEP UP WITH DEMAND.' THE FORECAST WAS WRONG. TODAY, THE INDUSTRY IS STRUGGLING WITH VERY DIFFERENT PROBLEMS. A COMBINATION OF SLOWER GROWTH IN WORLD ECONOMIES, ESPECIALLY IN THE CAPITAL-SPENDING SECTOR VITAL TO NICKEL, AND OF A SLEW OF NEW PRODUCERS HAS DISRUPTED THE NICKEL INDUSTRY AND THROWN MANY OF THE COMPANIES INTO THE RED. THE CHANGE IN THE WORLD OF NICKEL WASN'T COMPLETELY UNEXPECTED; IT SIMPLY CAME MUCH FASTER THAN ALMOST ANYONE HAD ANTICIPATED.

D.--"LARGELY BECAUSE OF AN 850 MILLION DOLLAR MINE IN INDONESIA AND A 230 MILLION DOLLAR MINE IN GUATEMALA -- BOTH NEARING COMPLETION -- INCO HAS GONE FROM NO LONG-TERM DEBT PRIOR TO 1968 TO OWING ALMOST 1.5 BILLION DOLLARS NOW.

E.--"THE INDONESIAN AND GUATEMALAN MINES POSE A PARTICULARLY THORNY PROBLEM FOR INCO. INDUSTRY OBSERVERS SAY BOTH FACILITIES WILL LOSE MONEY INITIALLY BECAUSE OF THE CURRENT WEAK MARKETS. AT THE SAME TIME, THE PROJECTS' HEAVY FINANCING COSTS WILL BEGIN BURDENING INCO'S INCOME

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STATEMENT THIS YEAR.

F.--"THE SUDDEN DETERIORATION OF NICKEL MARKETS HAS SURPRISED MOST OBSERVERS AND CONFUSED THEM ABOUT THE FUTURE. MOST AGREE, HOWEVER, THAT FUTURE GROWTH WON'T APPROACH THE 6 PER CENT TO 6.5 PER CENT ANNUAL GAINS POSTED IN THE PAST 20 YEARS AND THAT PRODUCER INVENTORIES PRECLUDE ANY SHARP RISE IN NICKEL PRICES SOON.

G.--"AN INDUSTRY ALREADY BURDENED WITH EXCESS CAPACITY FACES THE THREAT OF GOVERNMENT-BACKED DEVELOPMENT OF SEABED MINING OF NICKEL-RICH MANGANESE NODULES. INDEED, POSSIBLE LIMITS OF SEABED MINING HAVE BECOME A MAJOR BONE OF CONTENTION IN THE SEEMINGLY INTERMINABLE LAW OF THE SEA TREATY NEGOTIATIONS.,

3. ARTICLE POUCHED TO WINSTON.

CHRISTOPHER

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